

GEAR ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (unaudited)
As at

(Cdn\$ thousands)	September 30, 2021	December 31, 2020
ASSETS		
Current assets		
Accounts receivable	\$ 13,456	\$ 8,539
Prepaid expenses	3,449	3,176
Inventory (Note 2)	6,348	5,621
	23,253	17,336
Property, plant and equipment (Note 3)	235,157	244,940
Total assets	\$ 258,410	\$ 262,276
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,307	\$ 6,266
Debt (Note 4)	6,900	5,000
Decommissioning liability (Note 6)	5,705	2,714
Risk management contracts (Note 9)	6,547	19
	32,459	13,999
Debt (Note 4)	30,906	45,749
Convertible debentures (Note 5)	-	12,843
Decommissioning liability (Note 6)	74,258	84,756
Total liabilities	137,623	157,347
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	350,033	333,711
Convertible debentures (Note 5)	-	2,494
Contributed surplus	19,492	19,843
Deficit	(248,738)	(251,119)
Total shareholders' equity	120,787	104,929
Total liabilities and shareholders' equity	\$ 258,410	\$ 262,276

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

GEAR ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)****For the nine months ended September 30**

(Cdn\$ thousands)

	Share Capital	Convertible Debentures	Contributed Surplus	Deficit	Total Equity
Balance, beginning of period	\$ 335,455	\$ 2,498	\$ 18,097	\$ (173,795)	\$ 182,255
Common shares repurchased (Note 7)	(1,764)	-	1,274	-	(490)
Conversion of convertible debentures	20	(4)	-	-	16
Share-based compensation (Note 7)	-	-	394	-	394
Net loss for the period	-	-	-	(116,673)	(116,673)
Balance at September 30, 2020	\$ 333,711	\$ 2,494	\$ 19,765	\$ (290,468)	\$ 65,502
Balance, beginning of period	333,711	2,494	19,843	(251,119)	104,929
Conversion of convertible debentures	15,679	(2,494)	-	-	13,185
Stock option exercise (Note 7)	643	-	(682)	-	(39)
Share-based compensation (Note 7)	-	-	331	-	331
Net income for the period	-	-	-	2,381	2,381
Balance at September 30, 2021	\$ 350,033	\$ -	\$ 19,492	\$ (248,738)	\$ 120,787

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

GEAR ENERGY LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(Cdn\$ thousands, except per share amounts)	2021	2020	2021	2020
REVENUE				
Petroleum and natural gas sales (Note 10)	\$ 35,189	\$ 21,054	\$ 89,066	\$ 45,413
Royalties	(4,041)	(1,877)	(9,614)	(4,468)
	31,148	19,177	79,452	40,945
Realized (loss) gain on risk management contracts	(2,763)	2,889	(7,699)	14,663
Unrealized gain (loss) on risk management contracts	156	(2,118)	(6,528)	5,672
	28,541	19,948	65,225	61,280
EXPENSES				
Operating	9,400	7,344	26,053	20,748
Transportation	1,098	1,464	3,085	3,220
General and administrative	1,456	1,230	3,910	3,928
Interest and financing charges	547	1,180	2,177	2,677
Depletion, depreciation and amortization (Note 2 and 3)	8,967	9,413	25,678	23,603
Impairment (Notes 2 and 3)	-	-	-	98,206
Accretion (Notes 5 and 6)	399	350	1,512	1,273
Share-based compensation (Note 7)	137	124	331	394
(Gain) loss on foreign exchange	(71)	-	98	623
	21,933	21,105	62,844	154,672
Deferred income tax expense (Note 8)	-	-	-	23,281
Net income (loss) and comprehensive income (loss)	\$ 6,608	\$ (1,157)	\$ 2,381	\$ (116,673)
Net income (loss) per share, basic and diluted (Note 7)	\$ 0.03	\$ (0.01)	\$ 0.01	\$ (0.54)

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

GEAR ENERGY LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(Cdn\$ thousands)	2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	\$ 6,608	\$ (1,157)	\$ 2,381	\$ (116,673)
Add items not involving cash:				
Unrealized (gain) loss on risk management contracts	(156)	2,118	6,528	(5,672)
Depletion, depreciation and amortization	8,967	9,413	25,678	23,603
Impairment	-	-	-	98,206
Accretion	399	350	1,512	1,273
Share-based compensation	137	124	331	394
Unrealized loss on foreign exchange	-	-	-	725
Other costs	-	-	-	39
Deferred income tax expense	-	-	-	23,281
Decommissioning liabilities settled (Note 6)	(40)	(87)	(619)	(779)
Change in non-cash working capital (Note 11)	(6,314)	(1,897)	(1,351)	(2,196)
	9,601	8,864	34,460	22,201
CASH FLOWS (USED IN) FINANCING ACTIVITIES				
Change in debt under credit facilities	(279)	(8,356)	(12,944)	(7,014)
Settlement of stock options (Note 7)	-	-	(29)	-
Exercise of stock options	(14)	-	(11)	-
Common shares repurchased	-	-	-	(490)
	(293)	(8,356)	(12,984)	(7,504)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES				
Property, plant and equipment expenditures	(10,256)	(715)	(23,948)	(12,055)
Net (acquisition) disposition of oil and gas properties	-	-	-	(3)
Change in non-cash working capital (Note 11)	948	207	2,472	(2,639)
	(9,308)	(508)	(21,476)	(14,697)
INCREASE IN CASH AND CASH EQUIVALENTS	-	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ -	\$ -	\$ -	\$ -
The following are included in cash flow from operating activities:				
Interest paid in cash	\$ 547	\$ 956	\$ 1,954	\$ 2,384

See accompanying notes to the unaudited Interim Condensed Consolidated Financial Statements

GEAR ENERGY LTD.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

September 30, 2021 and 2020

(all tabular amounts in Cdn\$ thousands, except as noted)

1. BASIS OF PREPARATION

The principal undertakings of Gear Energy Ltd. (the “Company” or “Gear”) are to carry on the business of acquiring, developing and holding interests in petroleum and natural gas properties and assets.

Gear’s principal place of business is located at 800, 205 – 5th Avenue SW, Calgary, Alberta T2P 2V7.

These unaudited interim condensed consolidated financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies aligned with International Financial Reporting Standards (“IFRS”). These financial statements are consistent with Gear’s consolidated financial statements as at and for the year ended December 31, 2020. The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on November 3, 2021.

2. INVENTORY

As at September 30, 2021, Gear recorded oil inventory valued at its production cost of \$6.3 million (December 31, 2020 - \$5.6 million). Gear records changes in both the capital and operating components of inventory to the Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

During the three and nine months ended September 30, 2021, Gear did not record an impairment on its inventory to reduce the carrying amount to the lower of cost and net realizable value (2020 - \$nil and \$4.3 million)

3. PROPERTY, PLANT AND EQUIPMENT AND IMPAIRMENT

The following table reconciles Gear’s property, plant and equipment:

Cost (\$ thousands)	Development and Production Assets	Administrative Assets	Total
Balance, December 31, 2019	847,796	1,436	849,232
Additions	12,452	(11)	12,441
Acquisitions	203	-	203
Disposals	(200)	-	(200)
Change in decommissioning costs	2,126	-	2,126
Balance, December 31, 2020	862,377	1,425	863,802
Additions	23,913	35	23,948
Change in decommissioning costs	(5,602)	-	(5,602)
Balance, September 30, 2021	880,688	1,460	882,148
Depletion, depreciation and amortization			
Balance, December 31, 2019	531,006	1,191	532,197
Depletion, depreciation and amortization	35,361	79	35,440
Impairment	51,225	-	51,225
Balance, December 31, 2020	617,592	1,270	618,862
Depletion, depreciation and amortization	28,086	43	28,129
Balance, September 30, 2021	645,678	1,313	646,991
Carrying amounts (\$ thousands)			
As at December 31, 2020	244,785	155	244,940
As at September 30, 2021	235,010	147	235,157

As at September 30, 2021, no indicators of impairment or impairment reversal were identified on the property, plant and equipment.

As at March 31, 2020, indicators of impairment were identified on property, plant and equipment due to the severe decline in commodity prices. As at December 31, 2020, indicators of an impairment reversal were identified as a result of the increase in commodity prices and Gear's market capitalization since the last impairment test performed as at March 31, 2020. An impairment test was carried out at December 31, 2020 on each of Gear's Cash Generating Units ("CGUs"). The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of each CGU based on reserves estimated by Gear's independent reserves evaluator at December 31, 2020. As at March 31, 2020, and December 31, 2020, the estimated recoverable amounts were based on fair value less cost of disposal calculations using discount rates based on an estimated industry weighted average cost of capital ranging from 12 to 14 per cent, depending on the product composition of the assets in the CGU.

At March 31, 2020, Gear recorded an impairment loss of \$93.9 million on its three CGUs. As a result of the impairment test performed at December 31, 2020, the recoverable amounts of the three CGUs exceeded their carrying values, and a \$42.7 million impairment reversal, net of depletion was recorded.

4. DEBT

At September 30, 2021, Gear had the following credit facilities (collectively, the "Credit Facilities"):

Facility (\$ thousands)	Classification	Borrowing base		Maturity Date
		September 30, 2021	December 31, 2020	
Non-revolving term facility	Repaid	-	15,000	Repaid
Non-revolving term facility	Current	6,900	-	May 27, 2022
Revolving term facility	Long term	33,650	42,500	May 27, 2023
Operating facility	Long term	7,500	7,500	May 27, 2023
Total		48,050	65,000	

At September 30, 2021 Gear had \$37.8 million drawn on the Credit Facilities (December 31, 2020 – \$50.7 million) and outstanding letters of credit of \$0.9 million (December 31, 2020 – \$0.9 million). \$6.9 million (December 31, 2020 – \$5.0 million) has been classified as short-term debt for amounts borrowed under the non-revolving term credit facilities as these are required to be repaid in the next twelve months. The Credit Facilities do not carry any financial covenants. In addition, Gear has an outstanding letter of credit with a counterparty separate from the Credit Facilities for \$1.1 million (December 31, 2020 – \$nil).

The total stamping fees on the operating facility and revolving facility range, depending on Gear's Debt to EBITDA ratio, between 200 bps to 400 bps on Canadian bank prime borrowings and between 300 bps and 500 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances. The undrawn portion of the operating facility and revolving facility is subject to a standby fee in the range of 75 bps to 125 bps. The total stamping fees on the non-revolving facility range, depending on Gear's Debt to EBITDA ratio, between 500 bps to 700 bps on Canadian bank prime borrowings and between 600 bps and 800 bps on US dollar denominated LIBOR loans and Canadian dollar bankers' acceptances.

5. CONVERTIBLE DEBENTURES

During the second quarter of 2021, the remaining \$3.3 million subordinated unsecured convertible debentures (the "Convertible Debentures") were converted into common shares and as of September 30, 2021, no Convertible Debentures remain outstanding (December 31, 2020 – \$13.2 million outstanding). These Convertible Debentures carried a coupon of 7 per cent per annum payable semi-annually in arrears and had a maturity date of November 30, 2023. On March 16, 2021, Gear announced that its Convertible Debentures would be redeemed on April 26, 2021, at the option of the Company. During the nine months ended September 30, 2021, \$13.2 million of the Convertible Debentures were converted into 41.2 million common shares. All 2021 debenture conversions were converted at \$0.32 per common share such that for every \$1,000 principal amount of Convertible Debentures, a holder received 3,125 common shares along with the accrued and unpaid interest for the period from December 1, 2020 to the date of conversion.

The following table provides a continuity of balances of the Convertible Debentures and the equity component from December 31, 2019 to September 30, 2021:

(\$ thousands)	Convertible Debentures	Equity component
Balance, December 31, 2019	12,705	2,498
Accretion using effective interest rate at 8%	506	-
Conversions	(17)	(4)
Modification	(351)	-
Balance, December 31, 2020	12,843	2,494
Accretion using effective interest rate at 18%	342	-
Conversions	(13,185)	(2,494)
Balance, September 30, 2021	-	-

6. DECOMMISSIONING LIABILITY

(\$ thousands)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	87,470	85,714
Changes in estimates	(6,354)	1,857
Additions	752	393
Dispositions	-	(124)
Liabilities settled – Gear	(619)	(920)
Liabilities settled – Government assistance	(2,456)	(585)
Accretion	1,170	1,135
Balance, end of period	79,963	87,470
Expected to be incurred within one year	5,705	2,714
Expected to be incurred beyond one year	74,258	84,756

The undiscounted and unescalated amount of the expected cash flows required to settle the decommissioning liability is estimated to be \$80.0 million as at September 30, 2021 (December 31, 2020 – \$87.5 million). The liability for the expected cash flows, as reflected in the financial statements, has been inflated at 1.98 per cent (December 31, 2020 – 1.85 per cent) and discounted using a risk-free rate of 1.98 per cent (December 31, 2020 – 1.85 per cent). Abandonments are expected to occur between 2021 and 2046 and related costs will be funded mainly from cash provided by Gear's operating activities. On April 17, 2020, the federal government announced that as part of its COVID-19 Economic Response Plan it would provide the oil and gas industry \$1.7 billion to clean up orphan and inactive wells in Alberta, Saskatchewan and British Columbia under a Site Rehabilitation Program ("SRP"). For the three and nine months ended September 30, 2021, the program provided Gear \$0.9 million and \$2.5 million (for the year ended December 31, 2020 – \$0.6 million) respectively, towards extinguishing decommissioning liabilities.

7. SHAREHOLDERS' EQUITY

Gear is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. Holders of common shares are entitled to dividends if declared by the Board, one vote per share, and upon liquidation, dissolution or winding up of the Company, the remaining property and assets of Gear. There are no outstanding preferred shares as at September 30, 2021 or December 31, 2020.

a) Share Capital

(thousands of shares and \$ thousands)	Nine months ended September 30, 2021		Year ended December 31, 2020	
	Shares	Amount	Shares	Amount
Balance, beginning of period	216,490	\$ 333,711	217,610	\$ 335,455
Common shares repurchased	-	-	(1,142)	(1,764)
Exercise of stock options	1,414	643	-	-
Issued on conversion of debentures	41,203	15,679	22	20
Balance, end of period	259,107	\$ 350,033	216,490	\$ 333,711

b) Stock Options

Gear's stock option plan provides for the grant of options to purchase common shares of Gear to directors, officers, employees and consultants of Gear. In the third quarter of 2016, the Board of Directors of Gear determined that future grants of options under the option plan would vest as to one third on each of the first, second and third anniversary dates of the date of grant and expire 30 business days after such vesting dates. The terms of options outstanding prior to the determination by the Gear Board of Directors of the new terms remained unchanged and had the same vesting terms as the new terms but had a five-year expiry.

The following table summarizes Gear's stock option plan activity during the periods ended September 30, 2021 and December 31, 2020 for grants made under the plan with a five-year expiry. During the period ended September 30, 2021, Gear cash settled the remaining options under the plan for \$29 thousand. No options are outstanding as of September 30, 2021 under the five-year expiry plan.

(thousands)	Nine months ended September 30, 2021		Year ended December 31, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	688	\$ 0.35	2,724	\$ 1.27
Expired	-	-	(2,013)	1.90
Forfeited	(9)	0.35	(23)	0.45
Settled	(679)	0.35	-	-
Outstanding, end of period	-	-	688	0.35
Exercisable, end of period	-	\$ -	688	\$ 0.35

The following table summarizes Gear's stock option plan activity during the periods ended September 30, 2021 and December 31, 2020 for grants made under the plan with a thirty-day expiry following their vesting date.

(thousands)	Nine months ended September 30, 2021		Year ended December 31, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	12,584	\$ 0.40	12,536	\$ 0.61
Granted	6,297	0.55	5,853	0.20
Exercised	(2,875)	0.39	-	-
Expired	(725)	0.78	(5,415)	0.67
Forfeited	(504)	0.41	(390)	0.54
Outstanding, end of period	14,777	0.45	12,584	0.40
Exercisable, end of period	864	\$ 1.14	187	\$ 0.68

During the three and nine months ended September 30, 2021, Gear has recorded an expense of \$137 thousand and \$331 thousand (2020 – \$124 thousand and \$394 thousand) respectively, to share-based compensation expense recognizing the stock option activity for the period based on the fair value of options issued amortized using a graded vesting calculation.

The Black-Scholes option-pricing model was used to determine the fair value of stock options granted using the following assumptions:

	Nine months ended September 30, 2021	Year ended December 31, 2020
Risk free interest rate (%)	0.31	0.32
Average expected life (years)	2.1	2.1
Average expected volatility (%)	32.8	32.3
Forfeiture rate (%)	10.0	10.0

c) Weighted average common shares

(thousands)	Three months ended Sep 30,		Nine months ended Sep 30,	
	2021	2020	2021	2020
Basic	258,274	216,490	245,061	216,563
Diluted	263,719	216,490	262,932	216,563

The dilutive impacts of Convertible Debentures and stock options were excluded from the diluted weighted average number of common shares when the impact is anti-dilutive.

8. INCOME TAXES

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. A deferred tax asset in the amount of \$74.3 million (2020 - \$74.3 million) has not been recognized as Management does not find it probable that the benefit will be realized. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2027 through 2041.

9. FINANCIAL INSTRUMENTS

Classification and Measurement

Gear's financial instruments on the Interim Condensed Consolidated Balance Sheet are carried at amortized cost with the exception of risk management contracts, which are carried at fair value. As at September 30, 2021 and December 31, 2020, no significant differences existed between the carrying value of financial instruments and their estimated fair values.

All of Gear's risk management contracts are transacted in active markets. Gear classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, forward exchange rates, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Gear's cash is classified as Level 1 and risk management contracts are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Market Risk Management

Gear is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. There have been no changes in the Company's objectives, policies or risks surrounding financial instruments.

(a) Commodity price and foreign currency exchange risk

Gear is subject to commodity price risk on the delivery of crude oil, and to a lesser extent, natural gas and natural gas liquids ("NGL"). These prices have a significant impact on the Company's financial condition and are subject to volatility as a result of a number of different external factors. North American crude oil, natural gas and NGL prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate.

Gear uses or plans to use a variety of derivative instruments to reduce its exposure to fluctuations in commodity prices, foreign exchange rates, and interest rates. Gear has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting.

The following is a summary of all risk management contracts in place as at September 30, 2021:

Financial WTI Crude Oil Contracts									
	Term	Contract	Currency	Volume	Sold Swap	Sold Call	Bought Put	Sold Put	
				bbl/d	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl
	Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	800	-	74.00	55.00	45.00
	Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	800	-	71.00	55.00	45.00
	Oct 1, 2021	Dec 31, 2021	Three-way collar	CAD	400	-	83.00	55.00	45.00
	Jan 1, 2022	Mar 31, 2022	Three-way collar	CAD	2,400	-	86.00	62.50	50.00
	Apr 1, 2022	Jun 30, 2022	Put spread ⁽¹⁾	CAD	2,400	-	-	62.50	50.00

(1) The put spread also has a deferred premium of \$2.32 per barrel.

Financial AECO Natural Gas Contracts						
	Term	Contract	Currency	Volume	Sold Swap	
				GJ/d	\$/GJ	\$/GJ
	Oct 1, 2021	Dec 31, 2021	Swap	CAD	2,400	2.75

As at September 30, 2021, the fair value associated with Gear's risk management contracts was a liability of \$6.5 million (\$19 thousand liability at December 31, 2020).

The following table summarizes the change in the net risk management contracts liability during the period ended September 30, 2021 and year ended December 31, 2020:

(\$ thousands)	Nine months ended September 30, 2021	Year ended December 31, 2020
Balance, beginning of period	(19)	(3,094)
Unrealized (loss) gain on risk management contracts	(6,528)	3,075
Balance, end of period	(6,547)	(19)

(b) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and external sources (bank credit markets and equity financing, if required) to meet current spending forecasts.

Gear's Credit Facilities are periodically reviewed by its lenders through scheduled borrowing base reviews at which time the facilities can be adjusted. In the event that the borrowing base is reduced below the amount drawn, Gear would have 30 days to eliminate the borrowing base shortfall by repaying the amount drawn in excess of the adjusted borrowing base. If this occurs, alternative external sources of funding will be necessary. After examining the economic factors that could cause liquidity risk, the Company believes it will have sufficient liquidity to support its operations and meet its financial obligations for at least twelve months. The next borrowing base review is scheduled to be complete by May 31, 2022. There can be no assurance that future borrowing base reviews will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet Gear's obligations as they become due. In addition, there can be no assurances that Gear's Credit Facilities will be extended beyond the May 27, 2023 maturity date.

All the accounts payable and accrued liabilities are due in less than one year. The \$6.9 million of outstanding current portion of debt is due by May 27, 2022 or earlier as outlined by the credit agreement.

(c) *Credit risk*

Gear is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of petroleum and natural gas and other parties. In the event such entities fail to meet their contractual obligations to Gear, such failures could have a material adverse effect. The Company manages the risk by reviewing the credit risk of these entities and by entering agreements only with parties that meet certain credit tests. The maximum credit risk that the Company is exposed to is the carrying value of accounts receivable and risk management contracts.

The majority of the credit exposure on accounts receivable at September 30, 2021 pertains to accrued revenue for September 2021 production volumes. Gear transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Gear by the 25th day of the month following production. A significant portion of Gear's accounts receivable is carried by two marketing companies. At September 30, 2021, 48 per cent (December 31, 2020 – 15 per cent) of the total outstanding accounts receivable pertains to these companies. Gear did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at September 30, 2021.

When determining whether amounts that are past due are collectable, management assesses the credit worthiness and past payment history of the counterparty, as well as the nature of the past due amount. Gear considers all amounts greater than 90 days to be past due. At September 30, 2021 \$0.4 million (December 31, 2020 - \$0.3 million) of accounts receivable are past due with all amounts collectable.

10. PETROLEUM AND NATURAL GAS SALES

Gear sells its production pursuant to variable-price contracts. The transaction price for these contracts is based on commodity prices adjusted for quality and other factors. The contracts to sell the Company's crude oil, natural gas and natural gas liquids have varying terms not longer than one year. The following table provides a summary of Gear's revenue streams:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Heavy oil	20,759	12,304	52,948	24,897
Light and medium oil	12,259	7,646	30,850	17,709
Natural gas liquids	767	324	1,696	774
Natural gas	1,404	780	3,572	2,033
Total petroleum and natural gas sales	35,189	21,054	89,066	45,413

11. SUPPLEMENTAL DISCLOSURES CASH FLOW INFORMATION

Cash Flow Statement Presentation

The following table provides a detailed breakdown of the changes in non-cash working capital:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Accounts receivable	(1,888)	(2,666)	(4,917)	2,056
Prepaid expenses	(81)	(459)	(273)	(268)
Inventory	167	(433)	(730)	(691)
Accounts payable and accrued liabilities	(3,564)	1,868	7,041	(5,932)
Total	(5,366)	(1,690)	1,121	(4,835)
Operating Activities	(6,314)	(1,897)	(1,351)	(2,196)
Investing Activities	948	207	2,472	(2,639)
Total	(5,366)	(1,690)	1,121	(4,835)

12. COMMITMENTS AND CONTINGENCIES

The following is a summary of Gear's contractual obligations and commitments as at September 30, 2021:

(\$ thousands)	Payments due by period						
	2021	2022	2023	2024	2025	Thereafter	Total
Office leases ⁽¹⁾	105	357	488	433	232	-	1,615
Service agreement	46	182	48	-	-	-	276
Transportation agreement	-	472	477	477	477	2,743	4,646
Total contractual obligations	151	1,011	1,013	910	709	2,743	6,537

(1) Includes base rent and estimated operating costs.

During the second quarter of 2021, Gear entered into a transportation agreement that extends to 2030. The total remaining commitment is estimated to be \$4.6 million.

Gear enters into commitments for capital and decommissioning expenditures in advance of the expenditures being made. At a given point in time, it is estimated that Gear has committed to capital expenditures equal to approximately one quarter of its capital budget by means of giving the necessary authorizations to incur the expenditures in a future period.

Gear is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material impact on Gear's financial position or results of operations.